

**TESTIMONY BEFORE THE
U.S. SENATE COMMERCE COMMITTEE
SURFACE TRANSPORTATION FIELD HEARINGS
IN HAYS, KANSAS**

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Senator Brownback, ladies and gentlemen, good morning. Thank you for the opportunity to appear at the Senate Commerce Committee's field hearing.

I am Carl Koupal, and I am an executive vice president and the chief administrative officer for Western Resources. I am joined today by Tom Grennan. Tom is Western Resources vice president, generation services.

Let me begin by giving everyone some information about our company. Western Resources is a consumer services company with interests in energy and monitored security. The company has total assets of approximately \$7 billion. Its electric utilities, KPL and KGE, provide electric service to approximately 600,000 customers in Kansas. The company's ownership of Protection One, which has more than 1 million security customers in 48 states, makes it the second largest monitored security company in the nation.

Through its 45 percent ownership in ONEOK Inc., a Tulsa-based natural gas company, Western Resources has an interest in the eighth largest natural gas distribution company in the nation, serving more than 1 million customers. Through its other subsidiaries, Westar Capital and The Wing Group, the company participates in energy-related investments in the continental United States and overseas.

As one of the principal suppliers of electricity in Kansas, we welcome the opportunity to share in today's dialogue on rail transportation.

Rail transportation is absolutely critical to our ability to meet the energy needs of our electric customers. At present, more than 75 percent of the electricity we provide our customers, on an annual basis, comes from our coal-burning energy centers -- Jeffrey, Lawrence, Tecumseh, and LaCygne Energy Centers.

Of our coal-burning energy centers, Jeffrey is by far the largest for which Western Resources is the responsible operator (UtiliCorp owns 16 percent of this facility - so my comments represent Western Resources' 84 percent ownership). Jeffrey is the largest electricity supplier for Western Resources' customers, providing 45 percent of the Western Resources system's total energy requirements.

To meet the energy needs of Western Resources' customers, all of our coal-fired energy centers must receive approximately 11 million tons of coal annually. All of our plants have experienced some level of difficulty with coal delivery. But since Jeffrey accounts for the lion's share of our total annual coal needs, approximately 7.5 million tons, I would like to focus on Jeffrey.

Because Jeffrey is so important to Western Resources' operating system, we have learned, after years of experience and prudent management, that it is essential to Jeffrey's efficient operation that we maintain train cycle times of 2 trains per day and adequate coal reserves.

This combination of factors allows efficient electric operation when faced with a variety of contingencies, everything from weather extremes, increasing energy demand, to scheduling issues that delay turnaround time for trains and threaten daily coal replacement requirements.

A key issue in maintaining this efficient operation is train cycle or turn around time -- the time it takes for one train to pick up a load of coal in Wyoming, deliver it to Jeffrey and return for another load.

Beginning as early as last April, we saw a decrease in the frequency and reliability of rail transportation. This resulted in a reduction of our coal reserves at a time when demand for electricity was increasing.

By fall of last year, dramatic rail service problems, and the resultant increase in cycle time, caused our coal reserves to reach dangerously low levels. To meet this operational crisis, Western Resources had to significantly reduce the amount of electricity generated from Jeffrey and use more expensive energy resources to meet its customers' needs.

We have been in constant communication with Union Pacific, Jeffrey's destination carrier, to identify and eliminate problems causing poor cycle time performance. To UP's credit, they have worked with us in an open and candid way.

They recently accepted a ninth train to their scheduling cycle -- an additional leased train added to Western Resources' fleet of eight leased trains. This was done to allow Western Resources to move more coal in light of the cycle time problems experienced by Jeffrey.

Western Resources has aggressively managed its operation at Jeffrey to boost its current coal reserves. These efforts were aided by the milder than normal winter we've had.

Also UP's system cycle time performance has recovered somewhat from its November lows. Cycle time performance for Jeffrey has improved from the two-week average low in November 1997 of 1.1 trains per day to an average of 1.5 trains per day

for the last two-weeks of March 1998.

However, this is still 25 percent short of our requirement of 2.0 trains per day.

The potential for a warmer than normal summer and continued rail transportation difficulties, gives us cause for concern.

Turn around time needs to be further reduced. Unless this is done soon, we believe we will be faced with continued coal reserve shortfalls and a continued impact on our operational capabilities, as well as our operational flexibility.

With UP's acceptance of another train to their scheduling cycle, Jeffrey is being served by nine operating trains, instead of its normal seven. I might add that Western Resources added an eighth leased train to help boost its coal reserves in 1997.

Even with these two additional trains, and their attendant cost to Western Resources of approximately \$1.5 million annually, we have not been able to increase our coal reserves appreciably.

We will continue to work in an open and positive way with the Union Pacific to improve Jeffrey's coal inventories, and to improve our operational flexibility . . . a flexibility that will allow us to meet our obligation of providing electricity to all our customers when they need it.

We also would like to continue our dialogue with Congress in order to ensure that railroad customers have access to timely and efficient service at competitive rates, as well as full rights of redress for service complaints.

I would like to thank Senator Brownback for the opportunity to appear today, and I would be happy to entertain any questions you may have at this time.